CORPORATE GOVERNANCE AND BUSINESS ETHICS

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Abstract

Ethics the right way to run a business are inherent in all aspects of corporate governance and in every board decision and action. Ethical choices are relevant within the core business strategies that boards pursue and the way that direct the business as a whole to achieve them. The present paper provides a brief account of Indian corporate governance, corporate governance Codes, guidelines, Business Ethics, benefits of Business Ethics. This article also analyses the relationship between corporate governance and business ethics.

***Keywords**: Business ethics, Corporate governance.*

Introduction

Corporate governance lies at the heart of the way businesses are run. Often defined as the 'way businesses are directed and controlled', it concerns the work of the board as the body which bears ultimate responsibility for the business. Governance relates to how the board is constituted and how it performs its role. It encompasses issues of board composition and structure, the board's remit and how it carried out and the framework of the board's accountability to its stakeholders. It also concerns how the board delegates authority to manage the business throughout the organization. The word 'Corporate Governance' (CG) has become a buzzword these days due to various corporate failures world over in recent past. The Corporate Governance represents the value framework, the ethical framework and the moral framework under which business decisions are taken. In other words, when investment takes place across national borders, the investors want to be sure that not only their capital handled effectively and adds to the creation of wealth, but the business decisions are also taken in a manner which is not illegal or does not involve moral hazards (S.K. Verma & Suman Gupta, 2004).

The Corporate Governance basically denoted the rule of law, transparency, accountability and protection of public interest in the management of a company's affairs in the prevailing global and competitive market milieu. It called for an enlightened investing community and strict regulatory regimes to protect the rights of the investors and companies to improve productivity and profitability without recourse to any means which would offend the moral, ethical and regulatory framework of business.

Sustainability, Ethics & Environmental Governance

Only one third of respondents have a formal corporate social responsibility (CSR) policy. However, three quarters are engaging their employees in CSR by providing company sponsored volunteer events during work hours and four out of five have implemented sustainability initiatives to improve energy efficiency.

Use of Technology in Implementing Governance

The average survey respondent has three to six board meetings per year, provides meeting materials five to ten days in advance of these meetings and distributes board materials primarily through an internal or external portal. Use of IT systems is varied, as most respondents use such a system for either documentation management or regulatory filings but do not use one for managing compliance related risks.

Effective Board Operation & Governance Maximization Processes

Board and CEO performance evaluations tend to occur annually using a variety of metrics and approaches. Respondents are generally confident in their ability to staff critical roles and most expect their turnover to be relatively low. Director education may be an area of concern, as two out of five respondents report that 25% or fewer of their directors have attended education programs over the past year.

Essentials of Good Corporate Governance

Good Corporate Governance is a formal system of Accountability and Control of ethical and socially responsible decisions and use of resources. The following are the chief characteristics of Good Corporate Governance: it is

1. Participatory
2. Consensus Oriented
3. Accountable
4. Transparent
5. Responsive
6. Effective and Efficient
7. Equitable and Inclusive and
8. Follows the Rule of Law.

Business Ethics

Business ethics is a kind of applied ethics. It is the application of moral or ethical norms to business. The term ethics has its origin from the Greek word "ethos", which means character or custom- the distinguishing character, sentiment, moral nature, or guiding beliefs of a person, group, or institution. Ethics is a set of principles or standards of human conduct that govern the behaviour of individuals or organization. Ethics can be defined as the discipline dealing with moral duties and obligation, and explanation what is good or not good for others and for us. Ethics is the study of moral decisions that are made by us in the course of performance of our duties. Ethics is the study of characteristics of morals and it also deals with the moral choices that are made in relationship with others.

Business ethics comprises the principles and standards that guide behaviour in the conduct of business. Businesses must balance their desire to maximise profits against the needs of the stakeholders. Maintaining this balance often requires tradeoffs. To address these unique aspects of businesses, rules- articulated and implicit are developed to guide the businesses to earn profits without harming individuals or society as a whole.

Advantages of Business Ethics

More and more companies recognize the link between business ethics and financial performance. Companies displaying a clear commitment to ethical conduct consistently outperform companies that do not display ethical conduct.

Attracting and Retaining Talent

People aspire to join organizations that have high ethical values. Companies are able to attract the best talent and an ethical company that is dedicated to talking care of its employees being equally dedicated in taking care of the organization. The ethical climate matters to the employees. Ethical organizations create an environment that is trustworthy, making employees willing to rely, take decisions and act on the decisions and actions of co-employees.

Investor Loyalty

Investors are concerned about ethics, social responsibility and reputation of the company in which they invest. Investors are becoming more and more aware that an ethical climate provides a foundation for efficiency, productivity and profits.

Customer Satisfaction

Customer satisfaction is a vital factor in successful business strategy. Repeat purchases or orders and enduring relationship of mutual respect are essential for the success of the company. The name of a company should evoke trust and respect among customers for enduring success. This is achieved by a company that adopts ethical practices. When a company because of its beliefs in high ethics is perceived as such, any crisis or mishaps along the way is tolerated by the customers as a minor aberration.

Corporate Governance and Business Ethics

The national codes all emphasize the ethical nature of good corporate governance. Special emphasis is placed on the fact that good governance is based on a number of cardinal ethical values. Topping the list of the values that should be adhered to in good governance are the values of Transparency, accountability, responsibility and probability. These values should permeate all aspects of governance and be displayed in all actions and decisions of the board. The various aspects of governance, such as board complication and functioning reporting, disclosure and risk management, are seen as instrumental in realizing these cardinal values of good governance.

Besides these underlying values of Corporate Governance mention is also made of specific moral obligations that the board of directors and the company abide by. Prominent among these ethical obligations are ensuring that the company act on high ethical standards so that the reputation of the company will be protected as well as respecting the rights of all shareholders. A well defined and enforced corporate governance provides a Structure that, at least in theory, works for the benefit of everyone concerned by ensuring that the enterprises adheres to accepted ethical standards and best practices as well as to formal laws. To that end, organizations have been formed at the regional, national and global level.

In recent years, Corporate Governance has received increased attention because of high profile scandals involving abuse of corporate power and, in some cases, alleged criminal activity by corporate officers. An Integral part of an effective Corporate Governance regime Includes provisions for civil or criminal prosecution of individuals who conduct unethical or illegal acts in the name of organizations. In all the national codes of corporate governance and in India for the need for actively managing the ethical performance of companies is emphasized. The levels of detail with which these codes deal with the active management of ethics do, however, differ drastically. All the codes recommend that the board of directors should ensure that a code of ethics is developed and that it is endorsed by the board.

Most Corporate Governance codes also provide some guidance on the process of developing a code of ethics by either making reference to issues or topics that typically should be addressed in a code or by outlining a process that could be followed in the process of code design or review. Few codes go further to take the lead in venturing deeper into what the governing of ethical performances entails beyond developing a code of ethics. The most comprehensive recommendations on the ethics of governance are to be found in the Narayana Murthy Committee report on Corporate Governance.

Conclusion

Ethics is the first line of defence against corruption while law enforcement id remedial and reactive. Good corporate governance goes beyond rules and regulations that the government can put in place. It is also about ethics and the values which drive companies in the conduct of their business. It is therefore all about the trust that is established over time between companies and their different stakeholders. Good corporate governance practice cannot guarantee any corporate failure. But the absence of such governance standards will definitely lead to questionable practices and corporate failures which surface suddenly and massively. In making ethics work in an organization it is important that there is synergy between vision statements, mission statements, core values, general business principles and code of conduct confers a variety of benefits. An effective ethics programme requires continual reinforcement of strong values. Organizations are challenged with how to make its employees live and imbibe the organization codes and values. To ensure the right ethical climate a right combination of spirit and structure is required.

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